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Wisconsin Economic Development Corporation

May 2017

Report Highlights ▪

WEDC has improved the administration of its grant, loan, and tax credit programs.

WEDC cannot be certain about the numbers of jobs created or retained as a result of its awards.

WEDC did not report accurate information on the numbers of jobs created and retained as a result of its programs.

WEDC's cash and investments balance increased from $33.1 million as of June 30, 2012, to $69.9 million as of June 30, 2016.

2011 Wisconsin Act 7 created the Wisconsin Economic Development Corporation (WEDC) as the State's lead economic development organization. WEDC became fully operational in July 2011. Statutes require WEDC to develop and implement economic programs to provide support, expertise, and financial assistance to businesses that are investing and creating jobs in Wisconsin, as well as programs that support new business start-ups and business expansion and growth in the state. WEDC may also develop and implement any other programs related to economic development. Although WEDC is not a state agency, it is funded primarily with state funds.

In fiscal year (FY) 2015-16, WEDC administered 34 economic development programs that provided grants, loans, tax credits, and other assistance to businesses, individuals, local governments, and other organizations.

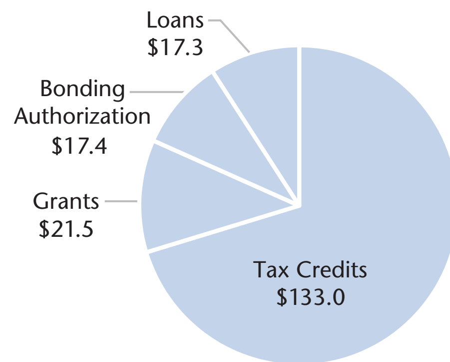
Statutes require the Legislative Audit Bureau to conduct biennially a financial audit of WEDC and a program evaluation audit of WEDC's economic development programs. To complete this audit, we analyzed:

- WEDC's administration and oversight of its programs;
- the results achieved by WEDC's programs; and
- WEDC's revenues and expenditures, as well as certain financial management issues.

Program Administration

WEDC authorized local governments to issue bonds to finance economic development projects and awarded grants and loans to businesses, local governments, and other organizations in FY 2015-16. It also provided tax credits to businesses and individuals.

Economic Development Awards
FY 2015-16
(in millions)



Effective July 1, 2016, WEDC significantly changed how it made awards. Therefore, we examined WEDC's administration of its grant and loan programs in the first six months of FY 2016-17. We found that WEDC improved its administration of grant and loan programs since our last audit (report 15-3). For example, 36 of the 37 grant and loan contracts we reviewed included statutorily required provisions requiring recipients to repay the funds in certain situations.

However, WEDC did not contractually require recipients to submit information sufficiently detailed to allow it to determine the extent to which jobs were actually created or retained. WEDC should determine the extent to which recipients created or retained contractually required jobs, such as by comparing the jobs-related information submitted by a recipient with the Department of Workforce Development's (DWD's) unemployment insurance information for the recipient's employees.

For the loans it administers, WEDC collects loan repayments and pursues collection of delinquent loans. The potentially uncollectable balance of loans with repayments 90 days or more past due increased from $1.3 million on December 31, 2014, to $11.0 million on December 31, 2016. The increase occurred largely because new loans became 90 days or more past due during this two-year period.

We examined WEDC's administration of its tax credit programs in the first six months of FY 2016-17. We found that WEDC improved its administration of tax credit programs since our last audit, including by establishing all statutorily required policies for its programs. However, WEDC did not collect sufficiently detailed information from applicants about their existing employees. Collecting such information will help WEDC determine in future years the extent to which tax credit recipients actually created or retained contractually required jobs. WEDC should also comply with statutes by annually verifying jobs-related information submitted by recipients, such as by comparing the jobs-related information submitted by a recipient with DWD's unemployment insurance information for the recipient's employees.

Key Facts and Findings

WEDC did not require grant and loan recipients to submit information sufficiently detailed to allow it to determine the extent to which jobs were actually created or retained.

The potentially uncollectable balance of loans with repayments 90 days or more past due increased from $1.3 million on December 31, 2014, to $11.0 million on December 31, 2016.

WEDC did not comply with statutes because it did not annually verify jobs-related information submitted by tax credit recipients.

WEDC indicated that 192 awards it had made since July 2011 ended through September 2016.

WEDC's fund balance policy should be revised to establish a target for the unassigned fund balance.

If a tax credit recipient does not comply with the terms of its contract with WEDC, it may be required to repay the State for tax credits it had previously claimed. If a recipient instead repays WEDC, then WEDC must repay these funds to the State. WEDC retained $5.3 million in repaid tax credits before depositing this amount with the Department of Administration (DOA) in March 2017, shortly after we asked about these funds.

Program Results and Accountability

Statutes require WEDC's governing board to monitor the performance of its economic development programs, including by annually and independently verifying the performance measure information submitted by a sample of grant and loan recipients. In 2016, WEDC paid a consultant $24,900 to conduct the verification effort. We found concerns with the verification effort, which excluded grant recipients that are statutorily required to be included.

Assessing the effectiveness of WEDC's awards involves determining the extent to which recipients met their contractual obligations. WEDC indicated that 192 awards it had made since July 2011 ended through September 2016, including 24 awards (12.5 percent of the total) for which WEDC indicated that job creation or retention was an expected result. We found that recipients of 3 of the 24 awards were not actually contractually required to create or retain any jobs. Thirteen of the 24 awards ended before the contractually specified completion dates and, as a result, the recipients were no longer contractually required to create 183 jobs and retain 1,082 jobs. Eight of the 24 awards reached their contractually specified completion dates.

Statutes require WEDC's governing board to report annually to the Legislature on each program administered in the prior fiscal year. We reviewed the October 2016 report and WEDC's online data that accompany the report to show the results of each award. WEDC cannot be certain about the extent to which the jobs-related information in the online data is accurate. WEDC did not collect sufficiently detailed information during the underwriting process from applicants about their existing employees. It did not contractually require grant and loan recipients to submit information sufficiently detailed to allow it to determine the actual numbers of jobs created or retained. In addition, WEDC did not comply with statutes because it did not annually verify jobs-related information submitted by tax credit recipients on the extent to which contractually required results were achieved.

We also found that WEDC's online data contained inaccuracies for certain awards, including 1,265 jobs associated with recipients that sold their operations in Wisconsin, ceased their operations in Wisconsin, or had withdrawn from their contracts before the contractually specified completion dates. In addition, at least 699 jobs were double-counted in the online data.

Statutes require WEDC's governing board to annually report each job created or retained as a result of its programs. Statutes and WEDC's policies stipulate that recipients typically receive awards for creating and retaining full-time jobs that pay at least 150.0 percent of the federal minimum wage. We found that WEDC's online data include not only the jobs created or retained according to the terms of WEDC's contracts, which typically reflected statutory and policy requirements, but also include an unknown number of additional jobs that did not necessarily meet the contractual terms.

Financial Management

The amount of total resources available to WEDC exceeded the total payments made for each quarter from July 2011 through June 2016. The largest difference between total resources available and total payments made was $85.2 million for the quarter ended June 30, 2015. The smallest difference was

$19.0 million for the quarter ended September 30, 2012. Overall, WEDC's cash and investments balance increased from $33.1 million as of June 30, 2012, to $69.9 million as of June 30, 2016, or by $36.8 million (111.2 percent). WEDC's cash and investments balance increased, in part, because WEDC received state funding quarterly. However, most of these funds were not immediately needed because of the timing of payments to grant and loan recipients, which are approximately three-quarters of amounts paid by WEDC.

Although WEDC improved its management of its fund balance and its credit cards since our last audit, we make recommendations for further improvements in each area.

Recommendations

We include recommendations for WEDC or its governing board to report to the Joint Legislative Audit Committee by February 1, 2018, on efforts to improve the:

☑ administration of grant and loan programs (*pp. 23, 24, 26, 27, 28,* and *32*);

☑ administration of tax credit programs (*pp. 43, 44, 45,* and *48*);

☑ oversight of economic development programs (*pp. 51, 53, 60, 61, 62,* and *65*); and

☑ financial management (*pp. 74* and *80*).

Issues for Legislative Consideration

The Legislature could consider modifying statutes to:

- require WEDC to deposit all tax credits repaid to it with DOA within one week (*p. 48*); and

- clarify that the governing board should report on only created or retained jobs that meet statutory and policy requirements (*p. 66*).

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